Using PBMs to Manage Prescription Drug Costs and Improve the Quality of Health Care

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Issues:

- Who are we and what value do we add?
- What would be the cost of drugs to consumers and health plans without PBMs?
- "Why won't PBMs disclose the rebates they negotiate?"
- Would price controls work better than the private market?
- Where do we go from here?

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Today's PBM Industry

- 200 million individuals are covered today through PBMs; 70% of all prescriptions
- PBM point-of-sale ("POS") systems adjudicate more than 2 billion transactions annually
- Existing pharmacy networks with 50,000+ pharmacies; more than 90% of all pharmacies
- Integrate prescription drug claims into medical records of health plans

Medco Health Today

- 539 million prescriptions (457M retail, 82M Home Delivery)
- Largest Home Delivery Provider nationally and within the FEHBP
- Covered Lives: 64 million
- Largest Internet pharmacy: through Medcohealth.com we dispense 11 million prescriptions (240k per week)
- ERISA employers; BCBS and commercial insurers; MCOs; and government employee programs

Core Capabilities of PBMs

- Develop and administer formularies
- Negotiate drug manufacturer rebate contracts
- Maximize the use of generics
- Manage drug utilization
- Profile physician prescribing practices to encourage “best practices”
- Negotiate pharmacy network contracts
- Health management programs

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Formularies

- P&T Committees, composed of physicians and pharmacists, assure scientific and clinical validity
- Formularies vary by degree of restriction
  -- open formularies
  -- multi-tier copayment formularies
  -- closed formularies
- Generic drugs are preferred on formularies

GAO Study of PBMs in the FEHBP

- Studied FEP, GEHA and Pacificare
- GAO had access to pricing and rebates
- GAO concluded that the PBMs studied:
  - Saved 18% on brands; 47% on generics
  - Generated 3-9% in rebates savings
  - Reduced overall premiums by over 1%
  - Provided patient safety programs that reduced dangerous drug interactions where patients use multiple doctors and pharmacies

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The Truth About Rebates

- The three largest PBMs have operating income of 1-2% pre-tax
- Retail pharmacy operating income ranges from 2-4%
- Health plans use competitive bidding to select PBMs and specifically negotiate the amount and structure of rebate pass-through, retention and disclosure
- Clients often require bidders to submit bids with:
  -- no administrative fees for claims processing
  -- no fees for pharmacy network management
  -- no fees for data analysis and client support
  -- no mail service dispensing fees

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If Rebates Work, why are costs rising?

- Medicaid, which uses price controls, is experiencing the highest drug trend of any sector
- Most significant drivers of drug trend are: utilization, price increases and new drug introductions
- Medicaid is turning to strategies that would not be tolerated in the FEHBP or by most employers
  -- limiting the number of prescriptions per month
  -- closing classes of drugs
  -- using therapeutic MACs or "reference pricing"
- Private sector has not been willing to impose the draconian measures Medicaid is being forced to impose because of state budget deficits

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Rebates in a Medicare Drug Benefit

- If not price controls - then how? Negotiated rebates are the principal market based alternative
- DOD, VA, Medicaid, CMS discount card, and most pending Medicare proposals use rebates to make the drug benefit affordable
- All CBO scoring assumes rebates will be obtained and that as formularies and interchanges are restricted, savings decrease and 10 year score increases (CBO 10/2002)
- Benefit design, formularies, cost-sharing formulae, and interchange programs drive level of rebates

Rebate Transparency

- Government has three roles
  -- provides entitlements
  -- offers benefit programs to employees
  -- regulates private sector transactions
- Government can require transparency as part of bid specification
- Private sector clients can require transparency as condition of doing business
- Must be procedures in place to assure confidentiality of proprietary information and not harm competition


5 prescriptions.
4 doctors.
3 pharmacies.
2 states.
No problem.

Discount Cards

- Brandeis University study documented average savings of 26%, or $7 per generic medication; and 14% or $11 per brand-name prescription
- First study to use actual pharmacy claims
- Important implications for drug benefit legislation
  - Lowers costs for scripts during any gap in coverage:
    - before a stop loss benefit is reached
    - before deductibles are satisfied

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